



INTL 466
International Business Strategy in
Non-Market Environments

Sections 61 and 62
Winter 2008 Syllabus

Professor Benjamin F. Jones
609 Leverone Hall
(847) 491-3177
email: bjones@kellogg.northwestern.edu

Office Hours
Tuesdays 2-4pm
Or by Appointment

Course Overview

Globalization presents unique opportunities and challenges for business growth and development. Whether a firm seeks new markets for its products, new suppliers in its production process, or simply high-yield investment vehicles, managers need to think in an increasingly global manner in making strategic decisions. But many of the most attractive opportunities internationally -- high-growth markets and/or low-cost production opportunities – present special non-market risks and challenges.

Indeed, beyond traditional factors such as cost and market size, the ability to achieve competitive advantage through globalization is increasingly determined by the firm's ability to assess non-market factors such as the stability of political regimes, the impact of corruption and the risks posed by weak legal systems that limit the enforceability of contracts. Contentious international policy issues such as labor rights, free trade and the protection of intellectual property together with international organizations such as the WTO, the IMF, and the World Bank further influence risks and opportunities in a given national environment.

This course provides tools and frameworks to incorporate non-market factors into international business strategy. The course provides a broad survey of major issues that managers are likely to face in international business, with a strong emphasis on issues germane to emerging markets. Our goal in this course is not to become experts about any one particular country or region; rather, we seek broad principles that can be applied across many countries, markets, and firms. The course will explicitly integrate cases with insights from the latest economics and political science research to provide the international business manager with a sophisticated and strategic perspective on globalization. We will consider many strategic solutions to specific problems posed by weak and/or uncertain institutional systems, where the “rules of the game” may be vague, opaque, or under constant threat of change.

In articulating the risks and considering strategies to mitigate them, we will also touch on deep issues in international development, and we will see that firms can have significant impacts – both positive and negative – in the places they operate. The opportunity to impact the local environment raises the possibility of ancillary social benefits on the one hand and possible ethical concerns on the other. This course further considers strategic choices in light of social ethics.

Course Structure

The course is divided into two major parts.

Part I: National Non-Market Issues and Business Strategy

Here we consider specific non-market issues that managers are likely to confront within many national environments. While these issues can appear all over the world, they are often acute in emerging markets.

- Poor access to information
- Weak contract enforcement
- Weak investor protections

- Weak intellectual property protections
- Corruption
- Political instability

For each issue, we will begin by characterizing the risks it poses and then analyze where and when it is likely to be important. We then consider, for each type of issue, important strategic responses that managers can take to successfully mitigate risks and realize opportunities.

Part II: International Institutions and Business Strategy

In the second part of the course we will examine the non-market roles of major international institutions. We will primarily consider:

- The WTO
- The IMF
- The World Bank Group

as they relate to

- Free trade
- Intellectual property rights
- Financial crisis
- Development and business assistance

Large international institutions have significant effects on entire economies as well as on the performance of individual sectors within nations. With each institution, we will start by analyzing its operational mechanisms and the problems it intends to solve. We will then consider specific risks and opportunities these institutions bring to business development and discuss strategies to ensure that your firm ends up on the “right side” of the policies and activities these institutions undertake.

As with many strategy courses, the material in this course can be complicated and real-world examples can be challenging to analyze at first. For this reason, Part I of the course will rely less on case teaching and more on simple examples to elucidate a series of specific concepts. As the course progresses, we will begin integrating these building blocks to provide rigorous analysis of more complicated real-world situations. The final project will allow students to further integrate and apply the concepts learned in the course.

Class Preparation

Readings:

A course packet, which includes nearly all of the readings and cases, is required. There is no textbook for this course. For each topic, there will be a set of assigned readings, including cases, which will help develop the underlying concepts and/or provide examples. It is essential that you read these materials prior to class.

Homework assignments:

I will hand out short homework assignments both to help guide your reading and to practice analytic concepts. These assignments will be provided in class. The homework assignments will

not be graded, but students will be expected to discuss the questions in class and similar questions will reappear on the exams.

Extra Readings:

This course provides a broad survey of many issues, and at times you may want to read further about issues of personal interest. The reading list will therefore also point to resources where you may find more extensive analysis. These readings are entirely optional, and are meant simply to provide a reference for you now or in the future.

Assessment and Grading

The grade is made up of four components:

- 1. Midterm Exam (25%):** The midterm will be a closed book/closed notes in-class exam, given in regular class time on Thursday, February 7th. It will consist of multiple choice and short answer questions, and will cover all lectures, cases, and readings from the first five weeks of the course. The midterm will place extra emphasis on the ideas drawn out in the homework assignments.
- 2. Final Exam (25%):** The final will be given in the exam period but will be of similar length (1.5 hours) and format as the midterm. It will only cover material from the second half of the course.
- 3. Group Project (40%):** The major component of the grade will be a group project. The project will give you and your group a chance to explore an area of special interest. Your group's product will be a written report that analyzes a specific strategic question from the point of view of a particular firm or possibly some other type of organization such as an NGO or government agency. You are free to choose any firm or other entity of particular interest to your group, but of course the thrust of your analysis must integrate significant elements of non-market issues and strategies that we have discussed in the course.

A successful project will include relevant background information about the firm, the project/investment of interest, and the country or countries in which the action would take place. Analysis of the firm's possible actions should follow, based on the strategic concepts we have developed in the course. The "theory" should be supplemented by descriptive evidence from the news media and hard data. The report should be approximately 12 pages in length (1.5 spaced, 12 point font size, ordinary margins) not including appendices, which may include up to 8 tables, graphs, and exhibits. The project will be due on the final day of class, March 8th.

To help ensure fairness, I will ask you on the final exam to assess the relative contributions of your group members.

Key Project Dates

Session 5 Provide list of group members

Session 13 One-page Description (10% of project grade)

The description should do four things. First, it should define the firm or other organization whose perspective you are taking. Second, the report should define a particular question of interest.

Third, it should define a set of likely strategic issues that will come up and that you will analyze.

Finally, it should provide a preliminary list of sources - for facts, issues, data, etc -- that will allow your group to produce a careful and textured analysis.

Session 20 Final Report (90% of project grade)

4. Class Participation (10%): Attendance, preparation, and participation are essential. Obviously, you cannot participate if you are not present, so absences without legitimate excuses will lead to a reduced participation grade. Learning opportunities are maximized when all students are actively engaged in class discussion. The subject matter of this class should naturally stimulate a lot of discussion, and I am eager to have an active dialogue. Particularly valuable types of participation will be those that move the discussion forward, often by adding useful facts to the discussion or by providing a new insight on the issue at hand. Requests to clarify concepts being presented are also encouraged of course. If you are confused by something, then other people are probably confused as well, and participation that seeks to clarify an idea will likely be valuable for the whole class.

Participation will also be essential as we discuss the questions in the homework assignments, which will largely consist of specific questions about the readings. If a question is in the homework assignment, then I will expect that everyone has something to say about it, and I will call on people at random on occasion.

There will be ample opportunity for each of you to participate. Do not be discouraged if, after the first few classes, you have yet to participate much. If you feel that you are preparing well but not being called on enough, please let me know so that I can address the problem. And please realize that as long as you have invested quality time in the readings and worked through the questions, you will almost certainly have valuable contributions to make during the discussion.

To minimize distractions, laptop computers should remain off throughout each session.

Course Webpage

You can link to the course web-page through my faculty page. The web address is:

<http://www.kellogg.northwestern.edu/faculty/jones-ben/ftp/MainCoursePage.htm>

Electronic copies of course materials, including lecture slides and homework assignments will be placed on the web-page after class. Further information about the group projects, including sample projects are also provided. Links to the “extra readings” can also be found there, and I will post additional articles of interest there as the course progresses.

Course Outline

Introduction

Session 1: Welcome and Overview

Monday, January 7, 2008

Reading:

1. Market Indicators, *The Economist*, November 3, 2007

Session 2: Why are Emerging Markets Still Emerging?

Thursday, January 10, 2008

Readings:

1. Pritchett, "Divergence, Big Time" in Meier & Rauch, *Leading Issues in Economic Development*
2. "First Get the Basics Right," *The Economist*, January 17, 2004
3. "The African Exception," *The Economist*, March 30, 2002

Extra Readings:

1. DeLong, "Review of Diamond, Guns, Germs, and Steel", 1999, http://www.j-bradford-delong.net/Econ_Articles/Reviews/diamond_guns.html
2. Acemoglu, Johnson, and Robinson, "Institutions as a Fundamental Cause of Long-Run Growth" *Handbook of Economic Growth (Chapter 6)*, 2005

Part I: National Non-Market Issues and Business Strategy

Session 3: Institutions, Market Failures, and Firm Strategy: An Introduction

Monday, January 14, 2008

Readings:

1. Anand, Khanna, and Rivkin, "Market Failures", Harvard Business School: Note, April 2000 [read pp. 1-7 only]
2. Sargent, "Getting to Know the Neighbors: Grupos in Mexico", *Business Horizons*, 2001.

Extra Readings:

1. North, *Institutions, Institutional Change, and Economic Performance*, 1990
2. Perkins, Susan. "Does Prior Experience Really Pay?", Kellogg School of Management, 2006.

Session 4: Contractual Problems

Thursday, January 17, 2008

Readings:

1. Besanko, Dranove, Shanley, and Schaefer, *Economics of Strategy*, 3rd Edition, 2004, p. 127-136
2. "A Local Firm's Baffling Trip Through China's Arbitration System", *Los Angeles Times*, December 26, 2003

3. “Thais make a mess of their muddling,” *Financial Times*, June 22, 1993

Extra Readings:

1. Djankov, La Porta, Lopez-de-Silanes, and Shleifer, “Courts”, *Quarterly Journal of Economics*, February 2002

Session 5: Property Rights I: Weak Investor Protections

Wednesday, January 23, 2008

Readings:

1. **Case:** “Gazprom and Hermitage Capital: Shareholder Activism in Russia”

Extra Reading:

1. Bertrand, Mehta, and Mullainathan, “Ferretting Out Tunneling: An Application to Indian Business Groups”, *Quarterly Journal of Economics*, February 2002
2. “Dancing with the Bear,” *The Economist*, February 2007

Due: List of group members for group project.

Session 6: Property Rights II: Intellectual Property Issues

Thursday, January 24, 2008

Readings:

1. “India Stands Firm Against Coca-Cola,” *The New York Times*, September 5, 1977
2. “Rich Vein of Talent Makes China Potential R&D Hothouse,” *Financial Times*, April 19, 2002
3. “Mind games: Counterfeit Goods in China,” *The Economist*, November 10, 2007

Extra Reading:

1. Zhao, “Doing R&D in Countries with Weak IPR Protection: Can Corporate Management Substitute for Legal Institutions?”, NYU, unpublished manuscript, July 2004
2. “Fakes!” *Business Week*, February 7, 2005

Session 7: Corruption I: An Introduction

Monday, January 28, 2008

Readings:

1. Easterly, “Corruption and Growth” in *The Elusive Quest for Growth*, Cambridge, MA: MIT Press, 2001, Ch. 12
2. “The Road to Hell is Unpaved,” *The Economist*, December 19, 2002
3. “India’s Corruption Blues,” *The Economist*, March 24, 2001

Extra Readings:

1. Shleifer and Vishny, “Corruption,” *Quarterly Journal of Economics*, August 1993
2. Fisman and Miguel, “Corruption, Norms and Legal Enforcement: Evidence from Diplomatic Parking Tickets,” *Journal of Political Economy*, 2008
3. “Rose-Ackerman, *Corruption and Government: Causes, Consequences, and Reform*, 1999, Chapters 2-5

Session 8: Corruption II: Firm-level Issues

Thursday, January 31, 2008

Readings:

1. "Corruption in International Business (B)"
2. **Case:** "Manulife in Indonesia (A)"
3. **Case:** "Manulife in Indonesia (B)"

Extra Readings:

1. "At Siemens, Witnesses Cite Pattern of Bribery," *Wall Street Journal*, January 2007
2. Excerpt of Texaco corporate charter re: Bribery and Foreign Corrupt Practices Act

Session 9: Political Power & Business Strategy

Monday, February 4, 2008

Readings:

1. "Ex-Leader Stole \$100 Million From Liberia," *The New York Times*, September 18, 2003
2. "A High-Tech Fix for One Corner of India," *The New York Times*, December 27, 2002
3. "Monopoly Money", *The Economist*, November 18, 2006

Extra Readings:

1. Jones and Olken, "Do Leaders Matter? National Leadership and Growth since World War II," *Quarterly Journal of Economics*, August 2005
2. Fisman, "Estimating the Value of Political Connections," *American Economic Review*, September 2001
3. Przeworski & Limongi, "Political Regimes and Economic Growth," *Journal of Economic Perspectives*, 1993

Session 10: MIDTERM EXAM

Thursday, February 7, 2008

Part II: International Institutions and Business Strategy

Session 11: Trade, Comparative Advantage, and the Non-Market Perspective

Monday, February 11, 2008

Readings:

1. P. Krugman & M. Obstfeld, "Labor Productivity and Comparative Advantage," in *International Economics*, 6th Edition, 2003, Ch. 2, pp. 10-26.
2. "The Allure of Low Technology," *The Economist*, December 20, 2003
3. "H-P Outsourcing: Beyond China" *The Wall Street Journal*, February 28, 2004.

Extra Readings:

1. "Grinding the Poor," *The Economist*, September 27, 2001

Session 12: Low Wages & Labor Issues

Thursday, February 14, 2008

Readings:

1. **Case:** “Hitting the Wall: Nike and International Labor Practices”
2. “Chinese Girls’ Toil Brings Pain, Not Riches,” *The New York Times*, October 2, 2003

Extra Readings:

1. Brown, Deardorff, and Stern, “The Effects of Multinational Production on Wages and Working Conditions in Developing Countries,” NBER Working Paper #9669, 2003
2. Irwin, *Free Trade Under Fire*, 2002, Chapter 6

Session 13: The WTO & the AIDS Epidemic

Monday, February 18, 2008

Readings:

1. D. Barron, “International Trade Agreements,” in *Business and Its Environment*, 4th Edition, pp. 595-602
2. **Case:** “Cipla”

Extra Readings:

1. Maskus, “Ensuring Access to Essential Medicines: Some Economic Considerations”, UC Boulder, mimeo, 2002

Due: One-page overview of your group project (see above for expected content).

Session 14: Trade Protections (I) and Trade Volatility (II)

Thursday, February 21, 2008

Readings:

1. “Builders Seek End to Tariffs on Cement,” *Los Angeles Times*, August 12, 2004
2. “The Paradox of Plenty,” *The Economist*, December 24, 2005

Extra Readings:

1. Mehlum, Moene, and Torvik. “Institutions and the Resource Curse”, *Economic Journal*, 2006

Session 15: Financial Crisis I: Anatomy of Financial Crises & The IMF

Monday, February 25, 2008

Readings:

1. “International Institutions” [Read section about IMF only]
2. “On the Rocks,” *The Economist*, March 7, 1998

Extra Readings:

1. Eichengreen, “The Globalization Wars: An Economist Reports from the Front Lines”(review of Stiglitz’s *Globalization and Its Discontents*), *Foreign Affairs*, July-August 2002

Session 16: Financial Crisis II: Argentina

Thursday, February 28, 2008

Readings:

1. **Case:** “The 2001 Crisis in Argentina (A)”
2. “Happy Camper,” *Forbes*, April 1, 2002.

Extra Readings:

1. Blustein, *And the Money Kept Rolling In (And Out): Wall Street, the IMF, and the Bankrupting of Argentina*, 2005

Session 17: The World Bank Group I: An Introduction

Monday, March 3, 2008

Readings:

1. Easterly, “To Help the Poor,” in *The Elusive Quest for Growth*, 2001, Ch. 1.
2. “International Institutions” [Finish article]

Extra Readings:

1. Easterly, *The Elusive Quest for Growth*, 2001
2. Einhorn, “The World Bank’s Mission Creep,” *Foreign Affairs*, September-October 2001

Session 18: The World Bank Group II: Business Strategy

Thursday, March 6, 2008

Readings:

1. Maddy, “Dream Deferred: The Story of a High-Tech Entrepreneur in a Low-Tech World,” *Harvard Business Review*, May-June 2000
2. **Case:** “Financing the Mozal Project”

Session 19: Integrative Case

Monday, March 10, 2008

Readings:

1. **Case:** “Nghe An Tate & Lyle Sugar Company”

Session 20: Summary and Review

Thursday, March 13, 2008

Readings: Review course materials.

Due: Group project.